



Consolidated Financial Statements

**For the Year Ended
March 31, 2018**

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CONSOLIDATED FINANCIAL STATEMENT DISCUSSION AND ANALYSIS PERIOD ENDED MARCH 31, 2018

(in millions of dollars)

The consolidated financial statement discussion and analysis should be read in conjunction with the University of Alberta audited financial statements. The university's financial statements have been prepared in accordance with Canadian Public Sector Accounting Standards. For more in-depth discussion and analysis of the university's goals and objectives please refer to the following documents:

For the Public Good, Comprehensive Institutional Plan, Investment Reports.

<https://www.ualberta.ca/reporting>

The consolidated financial statement discussion and analysis provides an overview of the university's:

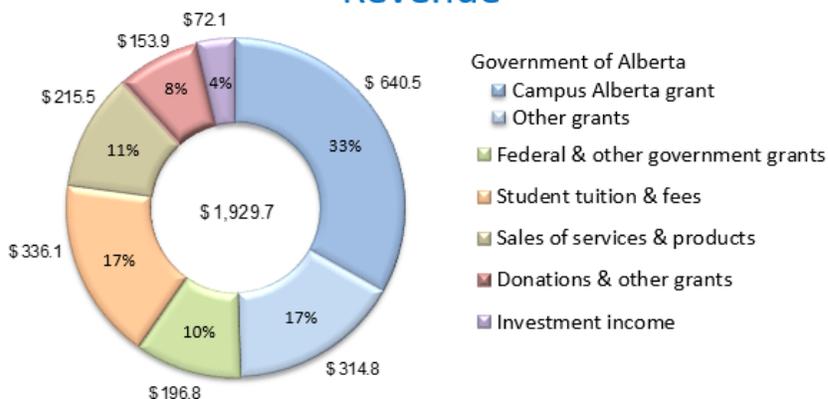
- Summary of Financial Results
- Revenue and Expense
- Capital Acquisitions
- Net Assets and Net Debt
- Areas of Significant Financial Risk

Summary of Financial Results

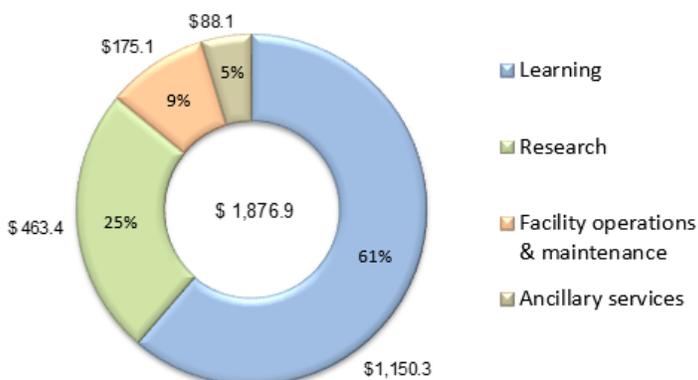
The university ended the year with an annual surplus of \$106.0 million. Of this amount \$53.2 million are donations directed to endowments and endowment capitalized investment income and therefore are not available for spending. The annual operating surplus of \$52.8 million; 2.7% of total revenue (budget: \$16.4; 0.9% of total revenue) was primarily used for capital acquisitions and debt repayment. Capital acquisition expenditures include library resources, scientific equipment and computer hardware/software.

Net assets of \$2,005.8 million increased from the prior year (2017: \$1,873.2). The increase is mainly due to an increase in endowments and the annual operating surplus.

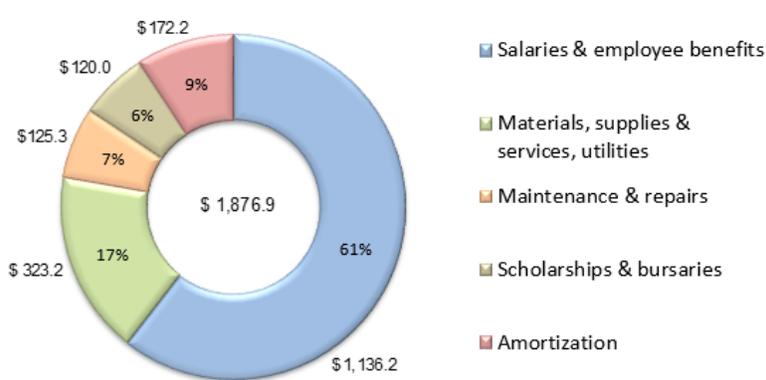
Revenue



Expense by Function



Expense by Object



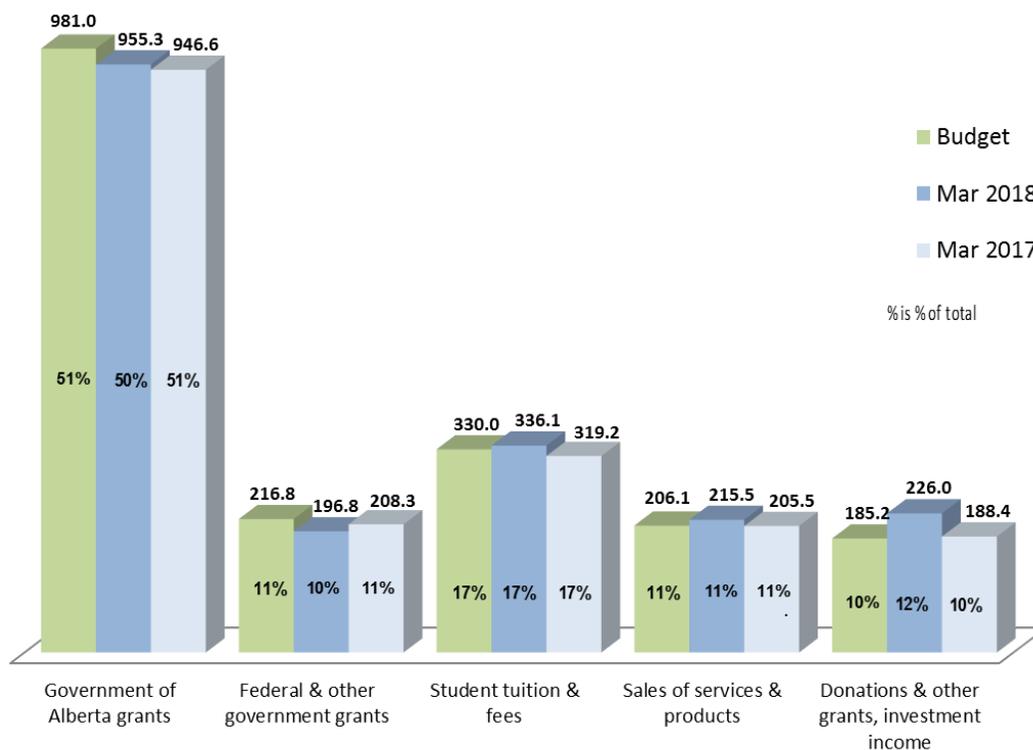
CONSOLIDATED FINANCIAL STATEMENT DISCUSSION AND ANALYSIS

PERIOD ENDED MARCH 31, 2018

(in millions of dollars)

Revenue

Total revenue for the year was \$1,929.7 million, an increase of \$61.7 million over the prior year and \$10.6 million (0.6%) more than budget.



Government of Alberta grants (GoA) represent the single largest source of funding for university activities at 50% of total revenue. The GoA increased the Campus Alberta grant (base operating grant) by 2%. Grants are less than budget as the GoA did not provide a tuition backfill grant to compensate for the tuition freeze. GoA grant funding for the Academic Medicine and Health Services Program (AMHSP) is less than budget as a portion of the overall AMHSP funding now comes from the Department of Medicine Practitioners Association (offset in other grants).

Federal and other government grants primarily support the university's research activities. Grants are less than budget due to reclassification of donation funding (offset in donations) and medical trainee revenue (offset in sales of services).

Student tuition and fees budget has remained relatively unchanged from prior year. Tuition includes instructional fees, market modifiers, program differential fees and international student fees. The GoA has frozen tuition fees for the past three fiscal years and in November 2017 announced that the tuition freeze will be extended to 2019.

Sales of services and products revenues are generated by ancillary services and faculties and administrative units to both individuals and external organizations. Ancillary services generated sales of \$97.4 million, while other units generated sales of \$118.1 million. Sales revenue is more than budget mainly due to a reclassification of medical trainee revenue (offset in other government grants).

Donations and other grants support many university activities. Donations and other grants are more than budget due to the AMHSP funding flow change (offset in GoA) and donations received which were included in the other government grants budget.

Investment income is \$5.4 million more than budget. Investments fall into two categories, the University Endowment Pool (UEP) and the Non-Ended Investment Pool (NEIP). The UEP had a return of 8.0% (2017: 14.9% return) and represents the majority of the university's long-term investment strategy. The NEIP investments which are allocated to the short-, mid- and long-term investment strategies had a return of 2.9% (2017: 4.4% return).

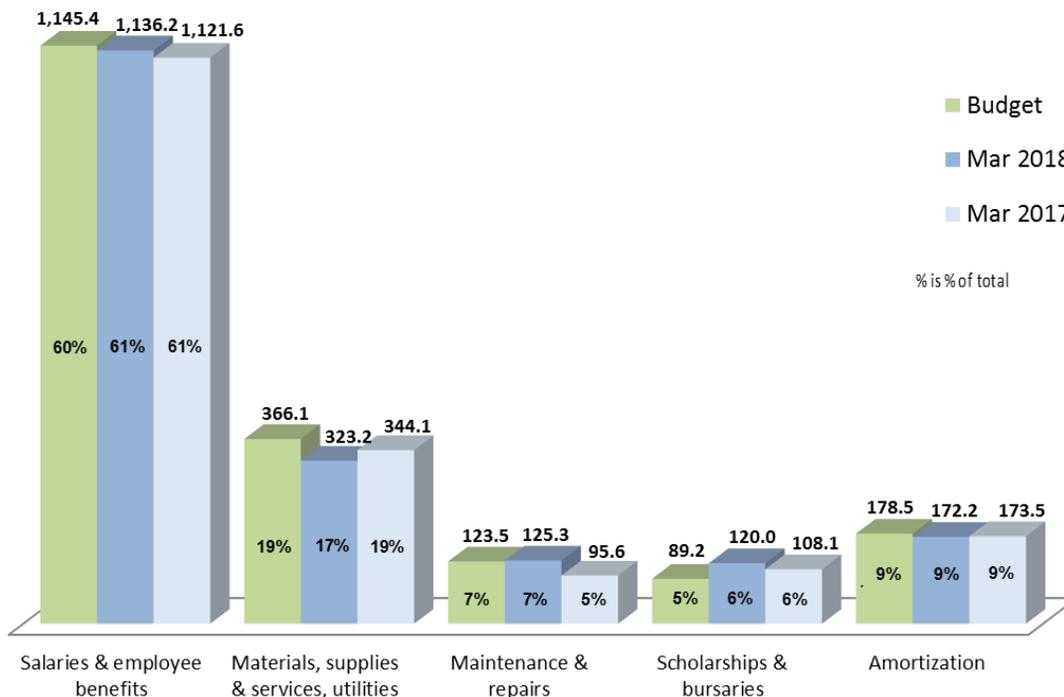
CONSOLIDATED FINANCIAL STATEMENT DISCUSSION AND ANALYSIS
PERIOD ENDED MARCH 31, 2018

(in millions of dollars)

Expense

Total expense for the year was \$1,876.9 million, an increase of \$34.0 million over the prior year and \$25.8 million (1.4%) less than budget. Salaries and employee benefits are the single largest expense representing 61% of total expense.

Expense by Object



Salaries and employee benefits are less than budget mainly due to the creation of a graduate research assistantship fellowship category which is now categorized as scholarships. This change occurred after the budget was finalized. Excluding this adjustment, salaries and benefits are on budget.

Materials, supplies and services, utilities are less than budget mainly due to lower than planned spending for materials, supplies and services. Utilities is lower than budget due to lower than budgeted utility rates.

Maintenance and repairs is comparable to budget.

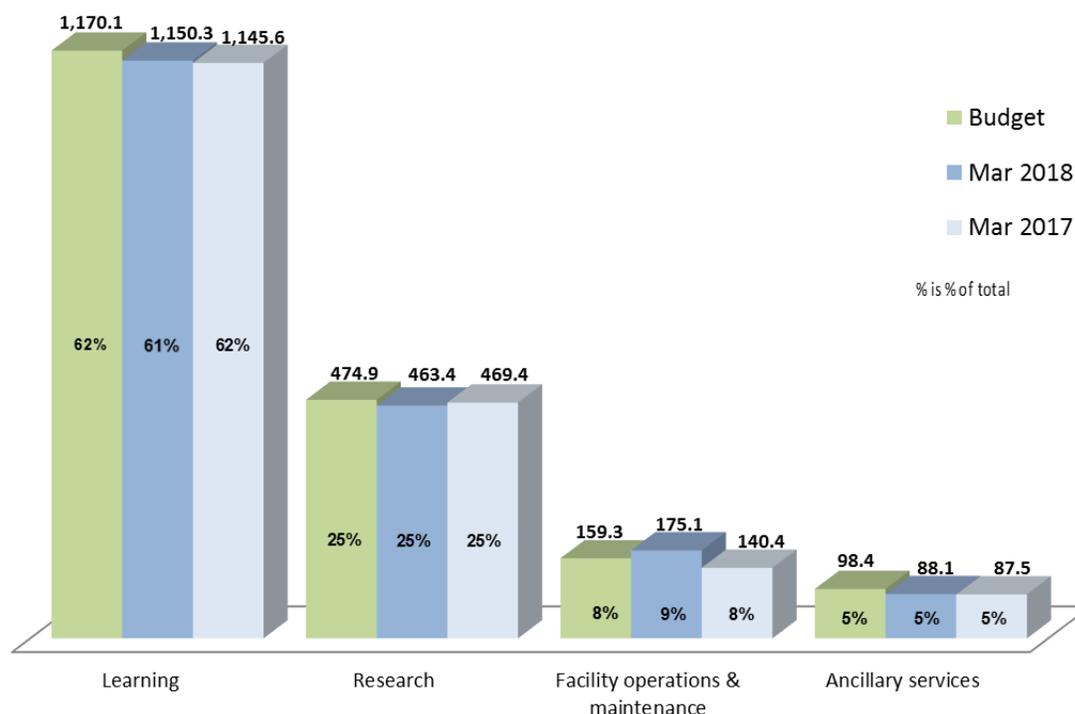
Scholarships and bursaries are more than budget, refer to salaries and employee benefits explanation.

Amortization is comparable to budget.

CONSOLIDATED FINANCIAL STATEMENT DISCUSSION AND ANALYSIS PERIOD ENDED MARCH 31, 2018

(in millions of dollars)

Expense by Function



Learning effectively represents the operating activities of the university. A significant component of this category is salary and employee benefit costs. Learning also includes restricted grants and donations that support undergraduate student scholarships, student bursaries and the Academic Medicine and Health Services Program (AMHSP). This expense is comparable to budget.

Research activities expenses are funded by restricted grants and donations as well as internal funds designated for research related spending. This expense is comparable to budget.

Facility operations and maintenance represents the cost of maintaining university facilities and grounds. This expense is more than budget mainly due to additional funding, received from GoA Strategic Initiative Fund grants and the increase in the Infrastructure Maintenance Program grant.

Ancillary services include the university bookstore, parking services, utilities and student residences. Ancillary services are less than budget mainly due to the delay in planned maintenance projects for parking and residences.

Capital Acquisitions

The university expended \$197.9 million (2017: \$145.3) on construction and other tangible capital asset acquisitions.

The most significant construction and capital asset acquisitions in 2018 are:

- Three new residence construction projects - Peter Lougheed Hall, East Campus Village and Lister Tower are funded by student rental revenue.
- Research and Collections Resource Facility - a new facility to replace the existing document storage site is funded from university resources.
- Aga Khan Garden at the UofA Botanic Garden is funded by donations.
- Various Strategic Investment Fund projects are funded by a combination of GoA grants and university resources.

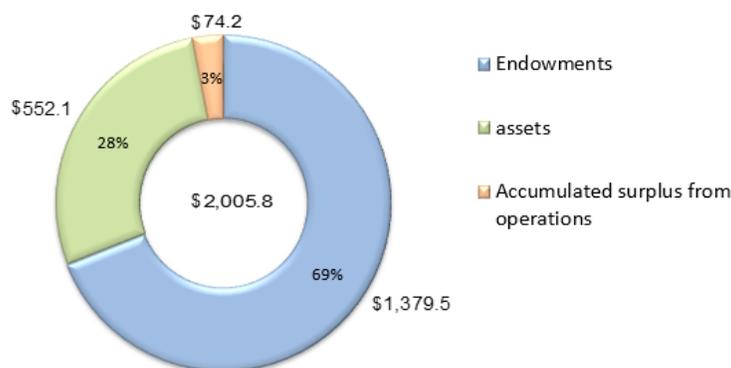
CONSOLIDATED FINANCIAL STATEMENT DISCUSSION AND ANALYSIS
PERIOD ENDED MARCH 31, 2018

(in millions of dollars)

Net Assets and Net Debt

Net assets

The net asset balance is an important indicator of financial health for the university. The net assets measure provides the economic position of the university from all years of operations. The university's net assets include endowments of \$1,379.5 million. Endowments represent contributions from donors that are required to be maintained in perpetuity, as well as capitalized investment income that is also required to be maintained in perpetuity to protect the economic value of the endowment. Endowments are not available for spending. Of the remaining \$626.3 million in net assets, \$552.1 million represents funds invested in tangible capital assets.



	Accumulated (deficit) surplus from operations	Investment in tangible capital assets	Endowments	Total
Net assets, beginning of year	\$ (16.1)	\$ 585.0	\$ 1,304.3	\$ 1,873.2
Annual operating surplus	52.8	-	-	52.8
Endowments	(1.7)	-	54.9	53.2
Tangible capital assets	(1.4)	1.4	-	-
Tangible capital assets - new financing for residence construction expenditures, incurred in the prior year	34.3	(34.3)	-	-
Change in accumulated remeasurement gains	6.3	-	20.3	26.6
Increase (decrease)	90.3	(32.9)	75.2	132.6
Net assets, end of year	\$ 74.2	\$ 552.1	\$ 1,379.5	\$ 2,005.8

The change from accumulated deficit from operations to accumulated surplus is mainly due to the annual operating surplus (\$52.8) and mortgage financing received in the current year for tangible capital assets that were acquired last year (\$34.3). The university also transferred \$1.7 million from accumulated surplus to endowments, representing a bequest received in the year.

The increase in investment in tangible capital assets of \$1.4 million consists of additions (\$103.1) and debt repayments (\$12.9), less new financing (\$54.1) and amortization (\$60.4). A portion of new financing (\$34.3) was for prior year construction projects; financing was deferred in order to secure a better interest rate. These additions include construction projects, equipment, furnishings, computer hardware/software and library resources.

The university's endowment spending policy provides for an annual spending allocation (2018: \$38.1; 2017: \$36.8) to support a variety of key initiatives in the areas of academic programs, chairs and professorships, scholarships, bursaries and research. The increase in endowments of \$75.2 million is due to an increase in fair value (\$48.1), new donations (\$25.4) and a transfer of a bequest (\$1.7).

CONSOLIDATED FINANCIAL STATEMENT DISCUSSION AND ANALYSIS PERIOD ENDED MARCH 31, 2018

(in millions of dollars)

Net debt

The university's liquidity needs are met primarily through operating cash flows, working capital balances and capital expansion funding received through grants or long-term debt. Net financial assets (net debt) is a measure of an organization's ability to use its financial assets to cover liabilities and fund future operations.

The net debt (excluding portfolio investments restricted for endowments) indicates that the university has a \$213.5 million deficiency (2017: \$227.4). The deficiency can be mainly attributed to employee future benefit liabilities (2018: \$237.8; 2017: \$251.1) which include the Universities Academic Pension Plan (UAPP) (2018: \$141.7; 2017: \$157.6) and other benefit plans such as supplementary retirement, long-term disability and early retirement (2018: \$96.1; 2017: \$93.5). Net debt has decreased mainly due to a decrease in employee future benefit liabilities resulting primarily from strong investment returns within the pension plan.

Areas of Significant Financial Risk

Fiscal Uncertainty

The Campus Alberta grant is the primary source of funding for the university's day-to-day operating activities. Government support is under pressure given the province's fiscal outlook. Grants, tuition and other revenue generation initiatives are largely under government control, which puts significant pressure on university finances. The impact to university revenue of a 1% change to the Campus Alberta base operating grant is \$6.2 million and a 1% change to domestic tuition is \$1.9 million.

Unfunded Pension Liability

The university participates with other Alberta post-secondary institutions in the Universities Academic Pension Plan (UAPP) to provide pensions for the university's participating employees. The unfunded deficiency in the UAPP is currently being funded by a combination of employee and employer contributions and the Government of Alberta. The deficiency is required to be eliminated by 2043. At March 31, 2018, based on actuarial assumptions, the university has recorded a UAPP employee future benefit liability of approximately \$142 million.

The impact to the university's share of the unfunded liability of a 1% increase in the inflation rate assumption would be an increase of approximately \$45 million, a 1% increase in the salary escalation assumption would be an increase of approximately \$9 million, while a decrease of 0.25% in the discount rate assumption would lead to an increase of approximately \$23 million.

Deferred Maintenance

As the largest and oldest post-secondary institution in the province, the university's deferred maintenance continues to increase and was estimated at approximately \$1 billion in 2017. The university continues to identify and address priority deferred maintenance issues through joint renewal and repurposing projects to maintain the functionality of our building inventory. We are grateful for the Government increase to the Infrastructure Maintenance Program grant (2018: \$34.9; 2017: \$23.6) which assisted in addressing the deferred maintenance priorities.

**STATEMENT OF MANAGEMENT RESPONSIBILITY
YEAR ENDED MARCH 31, 2018**

The consolidated financial statements of the University of Alberta have been prepared by management in accordance with Canadian public sector accounting standards. The consolidated financial statements present fairly the financial position of the university as at March 31, 2018 and the results of its operations, remeasurement gains and losses, changes in net financial assets and cash flows for the year then ended.

In fulfilling its responsibilities and recognizing the limits inherent in all systems, management has developed and maintains a system of internal control designed to provide reasonable assurance that university assets are safeguarded from loss and that the accounting records are a reliable basis for the preparation of the consolidated financial statements.

The Board of Governors is responsible for reviewing and approving the consolidated financial statements, and overseeing management's performance of its financial reporting responsibilities.

The Board of Governors carries out its responsibility for review of the consolidated financial statements principally through its Audit Committee. With the exception of the President, all members of the Audit Committee are not employees of the university. The Audit Committee meets with management and the external auditors and internal auditors to discuss the results of audit examinations and financial reporting matters. The external and internal auditors have full access to the Audit Committee, with and without the presence of management.

These consolidated financial statements have been reported on by the Auditor General of Alberta, the auditor appointed under the *Post-secondary Learning Act*. The Independent Auditor's Report outlines the scope of the audit and provides the audit opinion on the fairness of presentation of the information in the consolidated financial statements.

Original signed by David H. Turpin

President

Original signed by Gitta Kulczycki

Vice-President (Finance & Administration)
Chief Financial Officer

**INDEPENDENT AUDITOR'S REPORT
YEAR ENDED MARCH 31, 2018**



Independent Auditor's Report

To the Board of Governors of the University of Alberta

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of the University of Alberta, which comprise the consolidated statement of financial position as at March 31, 2018, and the consolidated statements of operations, change in net financial assets, remeasurement gains and losses, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the University of Alberta as at March 31, 2018, and the results of its operations, its remeasurement gains and losses, its changes in net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by W. Doug Wylie, FCPA, FCMA, ICD.D]

W. Doug Wylie FCPA, FCMA, ICD.D
Auditor General

May 28, 2018
Edmonton, Alberta

**UNIVERSITY OF ALBERTA
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2018**

(thousands of dollars)

	Note	2018	2017
Financial assets excluding portfolio investments restricted for endowments			
Cash and cash equivalents	4	\$ 74,078	\$ 18,768
Portfolio investments - non-endowment	5	872,516	849,115
Accounts receivable		153,177	143,216
Inventories held for sale		2,340	2,642
		1,102,111	1,013,741
Liabilities			
Accounts payable and accrued liabilities		179,497	179,148
Employee future benefit liabilities	7	237,774	251,060
Debt	8	350,306	250,562
Deferred revenue	9	548,016	560,420
		1,315,593	1,241,190
Net debt excluding portfolio investments restricted for endowments		(213,482)	(227,449)
Portfolio investments - restricted for endowments	5	1,379,534	1,304,254
Net financial assets		1,166,052	1,076,805
Non-financial assets			
Tangible capital assets	10	2,732,029	2,710,920
Prepaid expenses		7,981	7,199
		2,740,010	2,718,119
Net assets before spent deferred capital contributions		3,906,062	3,794,924
Spent deferred capital contributions	11	1,900,241	1,921,756
Net assets		12 \$ 2,005,821	\$ 1,873,168
Net assets is comprised of:			
Accumulated surplus		\$ 1,729,849	\$ 1,623,869
Accumulated remeasurement gains		275,972	249,299
		\$ 2,005,821	\$ 1,873,168

Contingent assets and contractual rights (note 13 and 15)

Contingent liabilities and contractual obligations (note 14 and 16)

**UNIVERSITY OF ALBERTA
CONSOLIDATED STATEMENT OF OPERATIONS
YEAR ENDED MARCH 31, 2018**

(thousands of dollars)

	Note	Budget (Note 18)	2018	2017
Revenue				
Government of Alberta grants	19	\$ 980,958	\$ 955,344	\$ 946,630
Federal and other government grants	19	216,832	196,782	208,276
Student tuition and fees		329,954	336,129	319,181
Sales of services and products		206,144	215,471	205,509
Donations and other grants		116,989	153,900	119,451
Investment income		68,196	72,098	68,924
		1,919,073	1,929,724	1,867,971
Expense				
Learning		1,170,107	1,150,308	1,145,558
Research		474,856	463,422	469,436
Facility operations and maintenance		159,329	175,062	140,411
Ancillary services		98,363	88,132	87,489
		1,902,655	1,876,924	1,842,894
Annual operating surplus		16,418	52,800	25,077
Endowment contributions		18,630	25,440	31,996
Endowment capitalized investment income		-	27,740	26,277
		18,630	53,180	58,273
Annual surplus		35,048	105,980	83,350
Accumulated surplus, beginning of year		1,623,869	1,623,869	1,540,519
Accumulated surplus, end of year	12	\$ 1,658,917	\$ 1,729,849	\$ 1,623,869

UNIVERSITY OF ALBERTA
CONSOLIDATED STATEMENT OF CHANGE IN NET FINANCIAL ASSETS
YEAR ENDED MARCH 31, 2018

(thousands of dollars)

	Budget (Note 18)	2018	2017
Annual surplus	\$ 35,048	\$ 105,980	\$ 83,350
Acquisition of tangible capital assets, net of proceeds on disposals	(185,304)	(197,691)	(142,280)
Amortization of tangible capital assets	178,519	172,139	173,556
Loss on disposal of tangible capital assets	-	4,443	3,356
	(6,785)	(21,109)	34,632
Change in prepaid expenses	1,122	(782)	1,318
Change in spent deferred capital contributions	(36,295)	(21,515)	(70,684)
Change in remeasurement gains and losses	-	26,673	112,493
(Decrease) increase in net financial assets	(6,910)	89,247	161,109
Net financial assets, beginning of year	1,076,805	1,076,805	915,696
Net financial assets, end of year	\$ 1,069,895	\$ 1,166,052	\$ 1,076,805

UNIVERSITY OF ALBERTA
CONSOLIDATED STATEMENT OF REMEASUREMENT GAINS AND LOSSES
YEAR ENDED MARCH 31, 2018

(thousands of dollars)

	Note	2018	2017
Accumulated remeasurement gains, beginning of year		\$ 249,299	\$ 136,806
Unrealized gains attributable to:			
Portfolio investments - non-endowment:			
Quoted in an active market		11,509	19,157
Designated at fair value		3,160	7,502
Portfolio investments - restricted for endowments:			
Quoted in an active market		61,838	126,099
Designated at fair value		7,681	17,074
Amounts reclassified to consolidated statement of operations:			
Portfolio investments - non-endowment:			
Quoted in an active market		(7,177)	(7,120)
Designated at fair value		(1,220)	(639)
Portfolio investments - restricted for endowments:			
Quoted in an active market		(43,691)	(43,667)
Designated at fair value		(5,427)	(5,913)
Net change for the year		26,673	112,493
Accumulated remeasurement gains, end of year	12	\$ 275,972	\$ 249,299
Accumulated remeasurement gains is comprised of:			
Portfolio investments - non-endowment		\$ 43,363	\$ 37,091
Portfolio investments - restricted for endowments		232,609	212,208
		\$ 275,972	\$ 249,299

**UNIVERSITY OF ALBERTA
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2018**

(thousands of dollars)

	2018	2017
Operating transactions		
Annual surplus	\$ 105,980	\$ 83,350
Add (deduct) non-cash items:		
Amortization of tangible capital assets	172,139	173,556
Expended capital recognized as revenue	(111,753)	(114,315)
Gain on sale of portfolio investments	(57,515)	(57,339)
Loss on disposal of tangible capital assets	4,443	3,356
Decrease in employee future benefit liabilities	(13,286)	(8,040)
Change in non-cash items	(5,972)	(2,782)
Increase in accounts receivable	(9,961)	(11,653)
Decrease in inventories held for sale	302	683
Increase in accounts payable and accrued liabilities	349	4,177
(Decrease) increase in deferred revenue	(12,404)	50,692
(Increase) decrease in prepaid expenses	(782)	1,318
Cash provided by operating transactions	77,512	125,785
Capital transactions		
Acquisition of tangible capital assets, net of proceeds on disposals	(194,994)	(139,358)
Cash applied to capital transactions	(194,994)	(139,358)
Investing transactions		
Purchases of portfolio investments	(351,972)	(385,980)
Proceeds on sale of portfolio investments	337,479	360,771
Cash applied to investing transactions	(14,493)	(25,209)
Financing transactions		
Debt repayment	(13,956)	(13,750)
Debt - new financing	113,700	17,500
Increase in spent deferred capital contributions, less in kind donations	87,541	40,709
Cash provided by financing transactions	187,285	44,459
Increase in cash and cash equivalents	55,310	5,677
Cash and cash equivalents, beginning of year	18,768	13,091
Cash and cash equivalents, end of year	\$ 74,078	\$ 18,768

**UNIVERSITY OF ALBERTA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2018**

(thousands of dollars)

1. Authority and purpose

The Governors of The University of Alberta is a corporation that manages and operates the University of Alberta (the university) under the *Post-secondary Learning Act* (Alberta). All members of the Board of Governors are appointed by either the Lieutenant Governor in Council or the Minister of Advanced Education, with the exception of the Chancellor and President, who are ex officio members. Under the *Post-secondary Learning Act*, Campus Alberta Sector Regulation, the university is a comprehensive academic and research institution offering undergraduate and graduate degree programs as well as a full range of continuing education programs and activities. The university is a registered charity, and under section 149 of the *Income Tax Act* (Canada), is exempt from the payment of income tax.

2. Summary of significant accounting policies and reporting practices

(a) General – Canadian public sector accounting standards (PSAS) and use of estimates

These consolidated financial statements have been prepared in accordance with PSAS. The measurement of certain assets and liabilities is contingent upon future events; therefore, the preparation of these consolidated financial statements requires the use of estimates, which may vary from actual results. Management uses judgment to determine such estimates. Employee future benefit liabilities and amortization of tangible capital assets are the most significant items based on estimates. In management's opinion, the resulting estimates are within reasonable limits of materiality and are in accordance with the significant accounting policies summarized below. These significant accounting policies are presented to assist the reader in evaluating these consolidated financial statements and, together with the following notes, should be considered an integral part of the consolidated financial statements.

(b) Valuation of financial assets and liabilities

The university's financial assets and liabilities are generally measured as follows:

Portfolio investments - fair value and amortized cost

Cash and cash equivalents, Accounts receivable, Accounts payable and accrued liabilities, Debt - amortized cost

Inventories held for sale - lower of cost and expected net realizable value

Unrealized gains and losses from changes in the fair value of financial assets and liabilities are recognized in the consolidated statement of remeasurement gains and losses. When the restricted nature of a financial instrument and any related changes in fair value create a liability, unrealized gains and losses are recognized as deferred revenue.

All financial assets are assessed annually for impairment. Impaired financial losses are recognized as a decrease in revenue, except for the restricted amount which is recognized as a decrease in deferred revenue. A write-down of an investment to reflect a loss in value is not reversed for a subsequent increase in value.

For financial assets and liabilities measured at amortized cost, the effective interest rate method is used to determine interest revenue or expense. Transaction costs are a component of cost for financial assets and liabilities that are measured at amortized cost and expensed when measured at fair value. Investment management fees are expensed as incurred. The purchase and sale of cash and cash equivalents and portfolio investments are accounted for using trade-date accounting.

Management evaluates contractual obligations for the existence of embedded derivatives and elects to either measure the entire contract at fair value or separately measure the value of the derivative component when characteristics of the derivative are not closely related to the economic characteristics and risks of the contract itself. Contracts to buy or sell non-financial items for the university's normal course of business are not recognized as financial assets or liabilities.

(c) Revenue recognition

All revenue is reported on an accrual basis. Cash received for which services and products have not been provided is recognized as deferred revenue.

Government grants, non-government grants and donations

Government transfers are referred to as government grants.

Restricted grants and donations are recognized as deferred revenue if the terms for use, or the terms along with the university's actions and communications as to the use, create a liability. These grants and donations are recognized as revenue when the terms are met. If the grants and donations are used to acquire or construct tangible capital assets, revenue will be recognized over the useful life of the tangible capital assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED MARCH 31, 2018

(thousands of dollars)

2. Summary of significant accounting policies and reporting practices (continued)

(c) Revenue recognition (continued)

Government grants without terms for the use of the grant are recognized as revenue when the university is eligible to receive the funds. Non-government grants and donations with no restrictions are recognized as revenue in the year received or in the year the funds are committed to the university if the amount can be reasonably estimated and collection is reasonably assured.

In kind donations of services and materials are recognized at fair value when a fair value can be reasonably determined.

Grants and donations related to land

Grants and donations for the purchase of land are recognized as deferred revenue when received and recognized as revenue when the land is purchased. An in kind grant or donation of land is recognized as revenue at the fair value of the land when a fair value can be reasonably determined. When the fair value cannot be reasonably determined, the in kind grant or donation is recognized at nominal value.

Endowment donations

Endowment donations are recognized as revenue in the consolidated statement of operations in the year in which they are received, and are required by donors to be maintained intact in perpetuity.

Investment income

Investment income includes dividends, interest income and realized gains and losses on the sale of portfolio investments. Investment income from restricted grants and donations is recognized as deferred revenue when the terms for use create a liability, and is recognized as revenue when the terms of the grant or donation are met.

The endowment spending allocation portion of investment income earned by endowments is recognized as deferred revenue when the terms for use by the endowment create a liability. Investment income earned by endowments in excess of the endowment spending allocation is recognized as revenue in the consolidated statement of operations (realized income) and the consolidated statement of remeasurement gains and losses (unrealized gains and losses), and is capitalized and maintained intact in perpetuity.

(d) Endowments

Endowments consist of:

- Externally restricted donations received by the university and internal allocations by the university's Board of Governors, the principal of which is required to be maintained intact in perpetuity.
- Investment income earned (excluding unrealized income) by the endowments in excess of the amount required for spending allocation is capitalized to maintain and grow the real value of the endowments. Benefactors as well as university policy stipulate that the economic value of the endowments must be protected by limiting the amount of income that may be expended and by reinvesting unexpended income.

Under the *Post-secondary Learning Act*, the university has the authority to alter the terms and conditions of endowments to enable:

- Investment income earned by the endowments to be withheld from distribution to avoid fluctuations in the amounts distributed, generally to regulate the distribution of income earned by the endowments.
- Encroachment on the capital of the endowments to avoid fluctuations in the amounts distributed and generally to regulate the distribution of investment income earned by the endowments if, in the opinion of the Board of Governors, the encroachment benefits the university and does not impair the long-term value of the fund.

In any year, if the investment income earned on endowments is insufficient to fund the spending allocation, the spending allocation is funded from the accumulated capitalized investment income. However, for individual endowments without sufficient accumulated capitalized investment income, endowment principal is used in that year and is expected to be recovered by future investment income.

(e) Inventories held for sale

Inventories held for sale are measured using the weighted average method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED MARCH 31, 2018

(thousands of dollars)

2. Summary of significant accounting policies and reporting practices (continued)

(f) Tangible capital assets

Tangible capital asset acquisitions are recognized at cost, which includes amounts that are directly related, such as design, construction, development, improvement or betterment of the assets, and costs associated with asset retirement obligations. Cost includes overhead directly attributable to construction and development. Construction in progress is not amortized until after the project is complete and the asset is in service.

The cost less residual value of the tangible capital assets, excluding land, is amortized on a straight-line basis over the estimated useful lives as follows:

Buildings and utilities	10 - 40 years
Equipment, furnishings and systems	3 - 10 years
Learning resources	10 years

Tangible capital asset write-downs are recognized when conditions indicate the asset no longer contributes to the university's ability to provide services, or when the value of future economic benefits associated with the tangible capital assets are less than their net book value. Net write-downs are recognized as expense.

Intangible assets, works of art, historical treasures and collections are expensed when acquired and not recognized as tangible capital assets because a reasonable estimate of the future benefits associated with such property cannot be made.

(g) Asset Retirement Obligations

Asset retirement obligations are recognized for statutory, contractual or legal obligations associated with the retirement of tangible capital assets when those obligations result from the acquisition, construction, development or normal operation of the assets. The obligations are measured initially at fair value, determined using present value methodology, and the resulting costs are capitalized into the carrying amount of the related asset. In subsequent periods, the liability is adjusted for the accretion of discount and any changes in the amount or timing of the underlying future cash flows. The capitalized asset retirement obligations are amortized on the same basis as the related asset and the discount accretion is included in determining the results of operations.

(h) Foreign currency translation

Transaction amounts denominated in foreign currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction dates. Carrying values of monetary assets and liabilities and non-monetary items included in the fair value category reflect the exchange rates at the consolidated statement of financial position date. Unrealized foreign exchange gains and losses are recognized in the consolidated statement of remeasurement gains and losses.

(i) Employee future benefits

Pension

The university participates with other employers in the Public Service Pension Plan (PSPP) and the Universities Academic Pension Plan (UAPP). These pension plans are multi-employer defined benefit pension plans that provide pensions for the university's participating employees based on years of service and earnings.

Pension expense for the UAPP is actuarially determined using the projected benefit method prorated on service. The UAPP activity and financial position are allocated to each participating employer based on their respective percentage of employer contributions. Actuarial gains and losses on the accrued benefit obligation are amortized over the expected average remaining service life of the related employee group.

The university does not have sufficient plan information on the PSPP to follow the standards for defined benefit accounting, and therefore follows the standards for defined contribution accounting. Accordingly, pension expense recognized for the PSPP is comprised of employer contributions to the plan that are required for its employees during the year, which are calculated based on actuarially pre-determined amounts that are expected, along with investment income, to provide the plan's future benefits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED MARCH 31, 2018

(thousands of dollars)

2. Summary of significant accounting policies and reporting practices (continued)

(i) Employee future benefits (continued)

Long-term disability

The cost of providing non-vesting and non-accumulating employee future benefits for compensated absences under the university's long-term disability plan is charged to expense in full when the event occurs which obligates the university to provide the benefits. The cost of this benefit is actuarially determined using the accumulated benefit method, a discount rate based on the university's cost of borrowing and management's best estimate of the retirement ages of employees, expected health care costs and the period of employee disability. Actuarial gains and losses on the accrued benefit obligation are amortized over the average expected period the benefit will be paid.

Early retirement

The cost of providing accumulating post-employment benefits under the university's early retirement plans is charged to expense over the period of service provided by the employee. The cost of these benefits is actuarially determined using the projected benefit method prorated on services, a discount rate based on the university's cost of borrowing and management's best estimate of expected health care, dental care, life insurance costs and the period of benefit coverage. Actuarial gains and losses on the accrued benefit obligation are amortized over the expected average remaining service life of the related employee group.

Supplementary retirement plans

The university provides non-contributory defined benefit supplementary retirement benefits to executive based on years of service and earnings. The expense for this plan is actuarially determined using the projected benefit method prorated on service. Actuarial gains and losses on the accrued benefit obligation are amortized over the expected average remaining service life of the related employee group.

The university provides non-contributory defined contribution supplementary retirement benefits to eligible executive and academic staff based on years of service and earnings. The expense for these plans is the employer's current year contribution to the plan as calculated in accordance with the plan rules.

Administrative/professional leave

The university provides for executive to accrue a paid leave of absence at the end of their executive appointment. The expense for this plan is actuarially determined using the projected benefit method prorated on service. Actuarial gains and losses on the accrued benefit obligation are amortized over the expected average remaining service life of the related employee group.

General illness

The cost of providing non-vesting and non-accumulating compensated absences to a maximum of 26 weeks (academic staff) or 120 days (support staff) under the university's general illness plan is charged to expense in full when the event occurs which obligates the university to provide the benefit. The cost of this benefit is actuarially determined using the accumulated benefit method and management's best estimate of the period of employee disability.

(j) Investment in government partnerships

Proportionate consolidation is used to recognize the university's share of the following government partnerships:

- Northern Alberta Clinical Trials and Research Centre (50% interest) - a joint venture with Alberta Health Services to support the shared missions of Alberta Health Services and the university for collaborative clinical research.
- TEC Edmonton (50% interest) - a joint venture with Edmonton Economic Development Corporation to stimulate entrepreneurialism, advance corporate development and accelerate commercialization of new ideas and technologies that benefit society.
- Tri-University Meson Facility (TRIUMF) (7.69% interest) - a joint venture with twelve other universities to operate a sub-atomic physics research facility.
- Western Canadian Universities Marine Sciences Society (20% interest) - provides research infrastructure in the marine sciences for member universities and the world-wide scientific community.

These government partnerships are not material to the university's consolidated financial statements; therefore, separate condensed financial information is not presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED MARCH 31, 2018

(thousands of dollars)

2. Summary of significant accounting policies and reporting practices (continued)

(k) Expense by function

The university uses the following categories of functions on its consolidated statement of operations:

Learning

Expenses relating to support for the academic functions of the university both directly and indirectly. This function includes expenses incurred by faculties for their scholarly activities and learning administrative services. Other expenses associated with this function include student awards and bursaries, other programs involving teaching and learning, and community service specifically funded by restricted grants and donations.

Research

Expenses for research activities funded by externally sponsored research funds intended for specific research purposes as well as internal funds designated for research related spending. Other expenses associated with this function include costs such as research administration and research related amortization.

Facility operations and maintenance

Expenses relating to maintenance and renewal of facilities that house the teaching, research and administrative activities within the university. These include utilities, facilities administration, building maintenance, custodial services, landscaping and grounds keeping, as well as major repairs and renovations.

Ancillary services

Expenses relating to services and products provided to the university community and to external individuals and organizations. Services include the university bookstore, parking services, utilities and student residences.

(l) Future accounting changes

In June 2015, the Public Sector Accounting Board issued PS 3430 Restructuring transactions. This accounting standard is effective for fiscal years starting on or after April 1, 2018. Restructuring transactions defines a restructuring transaction and establishes standards for recognizing and measuring assets and liabilities transferred in a restructuring transaction.

In March 2018, the Public Sector Accounting Board approved PS 3280 Asset retirement obligations. This accounting standard is effective for fiscal years starting on or after April 1, 2021. Asset retirement obligations provides guidance on how to account for and report a liability for retirement of a tangible capital asset.

Management is currently assessing the impact of these new standards on the consolidated financial statements.

3. Adoption of new accounting standards

The university has prospectively adopted standards from April 1, 2017:

- PS 2200 - Related party disclosures defines a related party and identifies disclosures for related parties and related party transactions, including key management personnel and close family members.
- PS 3420 - Inter-entity transactions establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective.
- PS 3210 - Assets provides guidance for applying the definition of assets set out in PS 1000, Financial statement concepts, and establishes general disclosure standards for assets.
- PS 3320 - Contingent assets defines and establishes disclosure standards for contingent assets.
- PS 3380 - Contractual rights defines and establishes disclosure standards for contractual rights.

The effect of adopting these standards results in changing disclosure of Note 2, Note 13, Note 15, and Note 17.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2018

(thousands of dollars)

4. Cash and cash equivalents

	2018	2017
Cash	\$ 11,697	\$ 3,789
Money market funds	62,381	14,979
	\$ 74,078	\$ 18,768

Money market funds also include short-term notes and treasury bills with a maturity less than three months from the date of acquisition.

5. Portfolio investments

	2018	2017
Portfolio investments - non-endowment	\$ 872,516	\$ 849,115
Portfolio investments - restricted for endowments	1,379,534	1,304,254
	\$ 2,252,050	\$ 2,153,369

The composition of portfolio investments measured at fair value is as follows:

	2018				2017			
	Level 1 ⁽¹⁾	Level 2 ⁽²⁾	Level 3 ⁽³⁾	Total	Level 1	Level 2	Level 3	Total
Cash and money market funds	\$ 23,857	\$ 531,274	\$ 385	\$ 555,516	\$ 25,923	\$ 537,363	\$ 403	\$ 563,689
Canadian government and corporate bonds	-	266,520	-	266,520	-	244,609	-	244,609
Canadian equity	304,714	-	-	304,714	374,432	-	-	374,432
Foreign equity	952,767	-	-	952,767	791,130	-	-	791,130
Private equity	-	-	57,661	57,661	-	-	39,970	39,970
Pooled hedge funds	-	30,552	-	30,552	-	52,064	-	52,064
Real estate funds	-	-	83,277	83,277	-	-	80,689	80,689
	1,281,338	828,346	141,323	2,251,007	1,191,485	834,036	121,062	2,146,583
Other at amortized cost				1,043				6,786
	\$ 1,281,338	\$ 828,346	\$ 141,323	\$ 2,252,050	\$ 1,191,485	\$ 834,036	\$ 121,062	\$ 2,153,369

The fair value measurements are those derived from:

- (1) Quoted prices in active markets for identical assets.
- (2) Inputs other than quoted prices included within level 1 that are observable for the assets, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- (3) Valuation techniques that include inputs for the assets that are not based on observable market data.

As at March 31, 2018, the average effective yields and the terms to maturity are as follows:

- Money market funds: 1.49% (2017 - 1.09%); term to maturity: less than one year.
- Canadian government and corporate bonds: 1.98% (2017 - 1.19%); terms to maturity: range from less than one year to more than 10 years.

The changes in fair value of level 3 portfolio investments are as follows:

	2018	2017
Balance, beginning of year	\$ 121,062	\$ 99,907
Unrealized gains	6,587	531
Purchases	22,760	35,432
Proceeds on sale	(9,086)	(14,808)
	\$ 141,323	\$ 121,062

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2018

(thousands of dollars)

6. Financial risk management

The university is exposed to the following risks:

Market price risk

Market price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, its issuer or general market factors affecting all securities. To manage this risk, the university has policies and procedures in place governing asset mix, diversification, exposure limits, credit quality and performance measurement. The university's Investment Committee, a subcommittee of the Board of Governors, has the delegated authority for oversight of the university's portfolio investments. The university's management of this risk has not changed from prior year.

The university assesses its portfolio sensitivity to a percentage increase or decrease in the market prices. The sensitivity rate is determined using the historical annualized standard deviation for the total University Endowment Pool over a four year period as determined by the BNY Mellon Asset Servicing Global Risk Solutions consulting report. At March 31, 2018, if market prices had a 5.1% (2017 - 5.2%) increase or decrease, with all other variables held constant, the increase or decrease in accumulated remeasurement gains for the year would be \$70,356 (2017 - \$67,821).

Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The university is exposed to foreign exchange risk on portfolio investments that are denominated in foreign currencies. The university does not hedge its foreign currency exposure with currency forward contracts or any other type of derivative financial instruments.

The impact of a change in value of the Canadian dollar against all foreign currencies is as follows:

Currency	Fair Value	2.5% decrease	1.0% decrease	1.0% increase	2.5% increase
Foreign Currency Assets	\$ 1,056,146	\$ (26,404)	\$ (10,561)	\$ 10,561	\$ 26,404

Credit risk

Counterparty credit risk is the risk of loss arising from the failure of a counterparty, debtor or issuer to fully honor its financial obligations with the university. The university is exposed to credit risk on investments and has established an investment policy with required minimum credit quality standards and issuer limits to manage this risk. The credit risk from accounts receivable is low as the majority of balances are due from government agencies and corporate sponsors.

The distribution of money market funds by risk rating area is as follows:

- Money market funds: R-1(high) 75.9% (2017 - 59.2%); R-1(mid) 24.1% (2017 - 40.8%).
- Bonds: AAA 86.6% (2017 - 85.3%); AA 11.4% (2017 - 12.5%); A 1.8% (2017 - 2.0%); not rated 0.2% (2017 - 0.2%).

Liquidity risk

Liquidity risk is the risk that the university will encounter difficulty in meeting obligations associated with its financial liabilities. The university maintains a portfolio of short-term investments with rolling maturity dates to manage short-term cash requirements. The university maintains a short-term line of credit to ensure that funds are available to meet current and forecasted financial requirements. In 2018, the line of credit was not drawn upon (2017 - not drawn upon).

Interest rate risk

Interest rate risk is the risk to the university's earnings that will be affected by the fluctuation and degree of volatility in interest rates. This risk is managed by investment policies that limit the term to maturity of certain fixed income instruments that the university holds. If interest rates increase by 0.3%, and all variables are held constant, the potential loss in fair value to the university would be approximately \$2,995 of total investments (2017 - \$2,968). Interest rate risk on the university's debt is managed through fixed rate agreements with Alberta Capital Finance Authority (note 8).

The maturity and effective market yield of interest bearing investments are as follows:

	< 1 year	1 - 5 years	> 5 years	Average effective market yield
	%	%	%	%
Money market funds	100.0	-	-	1.5
Canadian government and corporate bonds	-	64.8	35.2	2.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2018

(thousands of dollars)

7. Employee future benefit liabilities

	2018			2017		
	Academic staff	Support staff	Total	Academic staff	Support staff	Total
Universities Academic Pension Plan	\$ 141,695	\$ -	\$ 141,695	\$ 157,557	\$ -	\$ 157,557
Long-term disability	7,122	24,441	31,563	7,211	21,710	28,921
Early retirement	-	26,325	26,325	-	26,404	26,404
SRP (defined contribution)	25,805	-	25,805	22,339	-	22,339
SRP (defined benefit)	7,785	-	7,785	9,694	-	9,694
Administrative/professional leave	2,715	-	2,715	3,916	-	3,916
General illness	1,018	868	1,886	1,387	842	2,229
	\$ 186,140	\$ 51,634	\$ 237,774	\$ 202,104	\$ 48,956	\$ 251,060

(a) Defined benefit plans accounted for on a defined benefit basis

Universities Academic Pension Plan (UAPP)

The UAPP is a multi-employer contributory joint defined benefit pension plan for academic staff members. An actuarial valuation of the UAPP was carried out as at December 31, 2016 and was then extrapolated to March 31, 2018, resulting in a UAPP deficit of \$446,722 (2017 - \$763,861) consisting of a pre-1992 deficit of \$735,624 and a post-1991 surplus of \$288,902. The university's portion of the UAPP deficit has been allocated based on its percentage of the plan's total employer contributions for the year.

The unfunded deficit for service prior to January 1, 1992 is financed by additional contributions of 1.25% (2017 - 1.25%) of salaries by the Government of Alberta. Employees and employers equally share the balance of the contributions of 2.90% (2017 - 3.54%) of salaries required to eliminate the unfunded deficit by December 31, 2043. The Government of Alberta's obligation for the future additional contributions is \$244,241 at March 31, 2018.

Long-term disability (LTD) and general illness (GI)

The university provides long-term disability and general illness defined benefits to its academic and support staff. An actuarial valuation of these benefits was carried out as at March 31, 2018. The long-term disability plan provides pension and non-pension benefits after employment, but before the employee's normal retirement date. The general illness plan provides similar benefits but for a maximum of 26 weeks (academic staff) or 120 days (support staff).

Early retirement

The early retirement benefits for support staff include a bridge benefit (2018 - \$19,209; 2017 - \$19,511) and a retirement allowance (2018 - \$7,116; 2017 - \$6,893). An actuarial valuation of these benefits was carried out as at March 31, 2018. The bridge benefit allows eligible employees who retire early to continue participating in several staff benefit programs between the date of early retirement and the end of the month in which the former employee turns 65. Benefits include group life insurance, employee family assistance program, supplementary health care and dental care. The support staff retirement allowance provides eligible employees (those with 20 years of pensionable service at retirement date) one week's base pay per full year of employment to a maximum 25 days pay.

Supplementary retirement plan (SRP)

The university provides a non-contributory defined benefit supplementary retirement benefit to executive. The SRP obligation is calculated based on assumptions, including inflation, which are prescribed each month by the Canadian Institute of Actuaries. An actuarial valuation of these benefits was carried out as at March 31, 2018. The SRP was closed to new members effective June 30, 2014, as part of the approval of the new defined contribution SRP for executives.

Administrative/professional leave (leave)

The university provides for certain executive to accrue a paid leave at the end of their executive appointment. Upon completing their term of service, the individual's salary and benefits in effect at the end of the service are paid for the duration of the leave. The leave obligation is calculated based on assumptions, including inflation, which are prescribed each month by the Canadian Institute of Actuaries, which management has adopted as their best estimate. An actuarial valuation of these benefits was carried out as at March 31, 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2018

(thousands of dollars)

7. Employee future benefit liabilities (continued)

(a) Defined benefit plans accounted for on a defined benefit basis (continued)

The expense and liability of these defined benefit plans are as follows:

	2018				2017			
	UAPP	LTD, GI ⁽¹⁾	Early retirement ⁽¹⁾	SRP, leave ⁽¹⁾	UAPP	LTD, GI ⁽¹⁾	Early retirement ⁽¹⁾	SRP, leave ⁽¹⁾
Expense								
Current service cost	\$ 44,080	\$ 18,904	\$ 845	\$ 754	\$ 42,135	\$ 16,393	\$ 1,019	\$ 1,066
Interest cost, net of earnings	7,740	1,897	856	570	9,222	1,735	1,055	656
Amortization of actuarial (gains) losses	(3,842)	671	(552)	140	(2,609)	376	(280)	(455)
	\$ 47,978	\$ 21,472	\$ 1,149	\$ 1,464	\$ 48,748	\$ 18,504	\$ 1,794	\$ 1,267
Liability								
Accrued benefit obligation								
Balance, beginning of year	\$ 1,147,756	\$ 33,766	\$ 19,202	\$ 14,048	\$ 1,071,971	\$ 30,317	\$ 23,099	\$ 14,326
Current service cost	44,080	18,904	845	754	42,135	16,393	1,019	1,066
Interest cost	69,987	1,897	856	570	65,463	1,735	1,055	656
Benefits paid	(50,780)	(19,173)	(1,228)	(4,575)	(46,125)	(16,374)	(1,354)	(2,832)
Actuarial (gains) losses	(9,211)	3,986	4,535	(379)	14,312	1,695	(4,617)	832
Balance, end of year	1,201,832	39,380	24,210	10,418	1,147,756	33,766	19,202	14,048
Plan assets	(1,152,028)	-	-	-	(1,030,922)	-	-	-
Plan deficit	49,804	39,380	24,210	10,418	116,834	33,766	19,202	14,048
Unamortized actuarial gains (losses)	91,891	(5,931)	2,115	82	40,723	(2,616)	7,202	(438)
Accrued benefit liability	\$ 141,695	\$ 33,449	\$ 26,325	\$ 10,500	\$ 157,557	\$ 31,150	\$ 26,404	\$ 13,610

⁽¹⁾ The university plans to use its working capital to finance these future obligations.

The significant actuarial assumptions used to measure the accrued benefit obligation are as follows:

	2018			2017		
	UAPP	SRP, leave	LTD, GI, early retirement	UAPP	SRP, leave	LTD, GI, early retirement
	%	%	%	%	%	%
Accrued benefit obligation						
Discount rate	6.0	4.3	4.3	6.0	4.4	4.4
Long-term average compensation increase	3.0	3.0	3.0	3.0	2.0	3.0
Benefit cost						
Discount rate	6.0	4.4	4.3	6.0	4.5	4.4
Long-term average compensation increase	3.0	2.0	3.0	3.0	2.0	3.0
Alberta inflation (long-term)	2.0	1.3	2.0	2.0	2.2	2.0
Estimated average remaining service life	10.6 yrs	Note ⁽¹⁾	1 - 13 yrs	10.8 yrs	Note ⁽¹⁾	1 - 14 yrs

⁽¹⁾ SRP actuarial gains and losses are amortized over the remaining contract terms of the participants.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2018

(thousands of dollars)

7. Employee future benefit liabilities (continued)

(b) Defined benefit plan accounted for on a defined contribution basis

Public Service Pension Plan (PSPP)

The PSPP is a multi-employer contributory defined benefit pension plan for support staff members. As the university does not have sufficient information to follow the accounting standards for defined benefit plans, it is accounted for on a defined contribution basis. The pension expense recognized in these consolidated financial statements is \$32,915 (2017 - \$32,769).

An actuarial valuation of the PSPP was carried out as at December 31, 2016 and was then extrapolated to December 31, 2017. At December 31, 2017, the PSPP reported an actuarial surplus of \$1,275,843 (2016 - surplus of \$302,975). For the year ended December 31, 2017 PSPP reported employer contributions of \$363,748 (2016 - \$350,083). For the 2017 calendar year, the university's employer contributions were \$33,572 (2016 calendar year - \$32,256).

(c) Defined contribution plans

Supplementary retirement plans (SRP)

The university provides non-contributory defined contribution supplementary retirement benefits to eligible executive and academic staff members. The expense recognized in these consolidated financial statements is \$3,466 (2017 - \$4,068).

8. Debt

The following debt is with Alberta Capital Finance Authority and is measured at amortized cost:

	Maturity Date	Interest rate %	2018	2017
Collateral				
Title to land, building	August 2024 - March 2048	2.815 - 6.000	\$ 199,477	\$ 129,565
Cash flows from facility	May 2020 - December 2047	4.814 - 6.250	47,126	49,988
General Security Agreement	December 2028 - June 2042	2.420 - 3.623	86,850	50,959
None	March 2019 - September 2036	2.599 - 5.353	16,853	20,050
Balance, end of year			\$ 350,306	\$ 250,562

Interest expense on debt recognized in these consolidated financial statements is \$10,538 (2017 - \$9,585).

Land and buildings pledged as collateral have a net book value of \$296,150 (2017 - \$239,294).

Principal and interest payments are as follows:

	Principal	Interest	Total
2019	\$ 14,509	\$ 13,408	\$ 27,917
2020	14,703	12,792	27,495
2021	15,337	12,159	27,496
2022	14,491	11,496	25,987
2023	15,092	10,896	25,988
Thereafter	276,174	102,899	379,073
	\$ 350,306	\$ 163,650	\$ 513,956

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2018

(thousands of dollars)

9. Deferred revenue

	2018			2017	
	Unspent externally restricted grants and donations	Student tuition and other revenue	Total	Total	
Balance, beginning of year	\$ 534,448	\$ 25,972	\$ 560,420	\$ 509,728	
Net change for the year					
Grants, donations, endowment spending allocation and tuition	581,152	345,008	926,160	957,298	
Transfers to spent deferred capital contributions	(90,238)	-	(90,238)	(43,631)	
Recognized as revenue	(507,425)	(340,901)	(848,326)	(862,975)	
Net change for the year	(16,511)	4,107	(12,404)	50,692	
Balance, end of year	\$ 517,937	\$ 30,079	\$ 548,016	\$ 560,420	

10. Tangible capital assets

	2018					2017
	Buildings and utilities	Equipment, furnishings and systems	Learning resources	Land	Total	Total
Cost						
Beginning of year	\$ 3,485,283	\$ 1,331,763	\$ 429,694	\$ 83,957	\$ 5,330,697	\$ 5,229,985
Acquisitions	125,577	49,430	22,783	70	197,860	145,275
Disposals	-	(144,197)	-	-	(144,197)	(44,563)
	3,610,860	1,236,996	452,477	84,027	5,384,360	5,330,697
Accumulated amortization						
Beginning of year	1,253,947	1,049,628	316,202	-	2,619,777	2,484,433
Amortization expense	84,307	67,143	20,689	-	172,139	173,556
Disposals	-	(139,585)	-	-	(139,585)	(38,212)
	1,338,254	977,186	336,891	-	2,652,331	2,619,777
Net book value, March 31, 2018	\$ 2,272,606	\$ 259,810	\$ 115,586	\$ 84,027	\$ 2,732,029	\$ 2,710,920
Net book value, March 31, 2017	\$ 2,231,336	\$ 282,135	\$ 113,492	\$ 83,957	\$ 2,710,920	

Included in buildings and utilities is \$149,114 (2017 - \$107,711) recognized as construction in progress, which is not amortized as the assets are not in service.

Acquisitions include in kind donations in the amount of \$2,697 (2017 - \$2,922).

The university holds library permanent collections and other permanent collections which include works of art, museum specimens, archival materials and maps. These collections are expensed and therefore are not included in tangible capital assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2018

(thousands of dollars)

11. Spent deferred capital contributions

Spent deferred capital contributions is comprised of externally restricted grants and donations spent on tangible capital assets, less amortization recognized as revenue.

	2018	2017
Balance, beginning of year	\$ 1,921,756	\$ 1,992,440
Net change for the year		
Transfers from unspent externally restricted grants and donations	90,238	43,631
Expended capital recognized as revenue	(111,753)	(114,315)
Net change for the year	(21,515)	(70,684)
Balance, end of year	\$ 1,900,241	\$ 1,921,756

12. Net assets

	2018				2017			
	Accumulated (deficit) surplus from operations	Investment in tangible capital assets	Endowments	Total	Accumulated deficit from operations	Investment in tangible capital assets	Endowments	Total
Net assets, beginning of year	\$ (16,066)	\$ 584,980	\$ 1,304,254	\$ 1,873,168	\$ (23,782)	\$ 551,391	\$ 1,149,716	\$ 1,677,325
Annual operating surplus	52,800	-	-	52,800	25,077	-	-	25,077
Endowments								
New donations	-	-	25,440	25,440	-	-	31,996	31,996
Capitalized investment income	-	-	27,740	27,740	-	-	26,277	26,277
Transfer to endowments	(1,699)	-	1,699	-	(2,672)	-	2,672	-
Tangible capital assets								
Acquisitions	(103,063)	103,063	-	-	(97,494)	97,494	-	-
Debt repayment	(12,864)	12,864	-	-	(10,551)	10,551	-	-
Debt - new financing	88,394	(88,394)	-	-	15,215	(15,215)	-	-
Amortization	60,386	(60,386)	-	-	59,241	(59,241)	-	-
Change in accumulated remeasurement gains	6,272	-	20,401	26,673	18,900	-	93,593	112,493
Net assets, end of year	\$ 74,160	\$ 552,127	\$ 1,379,534	\$ 2,005,821	\$ (16,066)	\$ 584,980	\$ 1,304,254	\$ 1,873,168

Net assets is comprised of:

Accumulated surplus	\$ 30,797	\$ 552,127	\$ 1,146,925	\$ 1,729,849	\$ (53,157)	\$ 584,980	\$ 1,092,046	\$ 1,623,869
Accumulated remeasurement gains ⁽¹⁾	43,363	-	232,609	275,972	37,091	-	212,208	249,299
	\$ 74,160	\$ 552,127	\$ 1,379,534	\$ 2,005,821	\$ (16,066)	\$ 584,980	\$ 1,304,254	\$ 1,873,168

⁽¹⁾ Accumulated remeasurement gains are unrealized gains which are not recognized as revenue until realized.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2018

(thousands of dollars)

13. Contingent assets

The university has initiated a number of insurance claims arising in the normal course of business in which the outcomes may result in assets in the future. While the outcomes of these claims cannot be reasonably estimated at this time, the university believes that any settlement will not have a material effect on the financial position or the results of operations of the university. These contingent assets are not recognized in the consolidated financial statements.

14. Contingent liabilities

- (a) The university is a defendant in a number of legal proceedings arising in the normal course of business. While the ultimate outcome and liability of these proceedings cannot be reasonably estimated at this time, the university believes that any settlement will not have a material adverse effect on the financial position or the results of operations of the university. Management has concluded that none of the claims meet the criteria for recognizing a liability.
- (b) The university has identified a potential liability related to the existence of asbestos in a number of its facilities. Although not a current health hazard, upon renovation or demolition of these facilities, the university may be required to take appropriate remediation procedures to remove the asbestos. As the university has no legal obligation to remove the asbestos in these facilities as long as the asbestos is contained and does not pose a public health risk, the fair value of the obligation cannot be reasonably estimated due to the indeterminate timing and scope of the removal. The asset retirement obligations for these facilities will be recognized in the period in which there is certainty that the renovation or demolition project will proceed and there is sufficient information to estimate fair value of the obligation.

15. Contractual rights

Contractual rights are rights of the university to economic resources arising from contracts or agreements that will result in both assets and revenues in the future when the terms of those contracts or agreements are met.

Estimated amounts that will be received or receivable for each of the next five years and thereafter are as follows:

	Operating leases	Other contracts	Total
2019	\$ 1,890	\$ 1,279	\$ 3,169
2020	1,573	1,262	2,835
2021	1,222	1,256	2,478
2022	957	1,250	2,207
2023	527	1,220	1,747
Thereafter	140	5,990	6,130
	\$ 6,309	\$ 12,257	\$ 18,566
Total at March 31, 2017	\$ 8,320	\$ 13,463	\$ 21,783

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2018

(thousands of dollars)

16. Contractual obligations

- (a) The university has contractual obligations that will result in liabilities in the future when the terms of the contracts are met. The estimated aggregate amount payable for the unexpired terms of these contractual obligations are as follows:

	Capital projects	Service contracts	Long-term leases	Total
2019	\$ 97,906	\$ 86,836	\$ 4,312	\$ 189,054
2020	39,753	32,652	3,010	75,415
2021	30,521	10,845	2,352	43,718
2022	27,914	3,632	1,720	33,266
2023	34,675	360	1,656	36,691
Thereafter	-	-	4,397	4,397
	\$ 230,769	134,325	\$ 17,447	\$ 382,541
<hr/>				
Total at March 31, 2017	\$ 190,351	\$ 139,566	\$ 19,023	\$ 348,940

The significant service contracts are as follows:

- In order to manage its exposure to the volatility in the electrical industry, the university has entered into contracts to fix a portion of its electrical cost. The five contracts (2017 - six contracts) with expenditures totaling \$33,683 (2017 - \$44,032) expire over the next four years.
 - Effective August 1, 2015, the university entered into an agreement with an external party for dining and catering services. The agreement has two years remaining with a total estimated cost of \$24,267 (2017 - \$34,667).
 - The university entered into agreements with two external parties for information technology support. The first agreement, effective July 1, 2015 for infrastructure management services, has three years remaining with a cost of \$10,125 (2017 - \$14,625). The second agreement, effective July 1, 2017 for application management services, has two years remaining with a cost of \$4,057 (2017 - \$1,125, three months remaining).
 - Effective August 1, 2017, the university entered into an agreement with an external party for custodial services. The agreement has two years remaining with a cost of \$12,960 (2017 - \$3,000, four months remaining).
- (b) The university is one of 61 members of CURIE, the Canadian Universities Reciprocal Insurance Exchange, a self-insurance reciprocal established to share the insurable property, liability, and errors and omissions risks of member universities. The projected cost of claims against the exchange is based on actuarial projections and is funded through members' premiums. As at December 31, 2017, CURIE had an accumulated surplus of \$81,232 (2016 - \$84,907), of which the university's pro rata share is approximately 7.33% (2017 - 7.23%). This accumulated surplus is not recognized in the consolidated financial statements.

17. Related parties

The university's accounts are consolidated with the Government of Alberta and is therefore related to all organizations within that government reporting entity. Related parties also include key management personnel (KMP), and their close family members, of the university. Transactions with these entities and individuals are considered to be in the normal course of operations and are recorded at the exchange amount, which approximates fair value.

The university utilizes space provided by other related parties, mainly with Alberta Health Services. This space is provided at a nominal cost. Due to the unique physical and operating arrangements in place, the specialized nature of the space and the integrated nature of operations, the fair value of these lease arrangements cannot be reasonably determined.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2018

(thousands of dollars)

18. Budget

The university's 2017-18 budget was approved by the Board of Governors and was presented to the Minister of Advanced Education as part of the university's submission of its 2017-18 Comprehensive Institutional Plan.

19. Government transfers

	2018	2017
Government of Alberta grants		
Advanced Education - Campus Alberta grant	\$ 640,512	\$ 628,276
Advanced Education - other grants	112,116	128,775
Economic Development and Trade	83,569	61,019
Alberta Health Services - Academic Medicine and Health Services Program	45,648	-
Alberta Health Services - other grants	5,234	9,448
Health - other grants	22,497	23,940
Health - Academic Alternative Relationship Plans	-	73,000
Other departments and agencies	13,716	10,725
	923,292	935,183
Expended capital recognized as revenue	67,270	71,351
Deferred revenue	(35,218)	(59,904)
	\$ 955,344	\$ 946,630
Federal and other government grants		
Natural Sciences and Engineering Research Council	\$ 53,132	\$ 52,002
Canadian Institutes of Health Research	34,521	36,604
Social Sciences and Humanities Research Council	28,044	27,774
Canada Research Chairs	13,352	17,077
Canada Foundation for Innovation	10,896	14,091
Other	47,382	40,704
	187,327	188,252
Expended capital recognized as revenue	20,122	18,895
Deferred revenue	(10,667)	1,129
	\$ 196,782	\$ 208,276

The university holds \$6,180 (2017 - \$6,347) on behalf of Government of Alberta agencies and \$3,572 (2017 - \$5,492) on behalf of federal and other government agencies. These amounts are not recognized in the university's consolidated financial statements.

20. Expense by object

	2018 Budget (Note 18)	2018	2017
Salaries	\$ 962,800	\$ 944,064	\$ 938,672
Employee benefits	182,605	192,156	182,949
Materials, supplies and services	311,281	270,994	294,276
Maintenance and repairs	123,490	125,318	95,561
Scholarships and bursaries	89,160	120,039	108,066
Utilities	54,800	52,214	49,814
Amortization of tangible capital assets	178,519	172,139	173,556
	\$ 1,902,655	\$ 1,876,924	\$ 1,842,894

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2018

(thousands of dollars)

21. Salaries and employee benefits

	2018							Total
	Base salary ⁽⁵⁾	Other cash benefits ⁽⁶⁾	Non-cash benefits ⁽⁷⁾	Non-cash benefits (DB SRP) ⁽⁸⁾	Non-cash benefits (DC SRP) ⁽⁹⁾	Non-cash benefits (leave) ⁽¹⁰⁾		
Governance ⁽¹⁾								
Board of Governors	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Executive								
President	500	95	50	27	47	97	816	
Provost and Vice-President (Academic) ⁽¹¹⁾	415	-	42	-	28	-	485	
Vice-President (Research) ⁽²⁾	334	-	32	36	12	39	453	
Vice-President (Facilities and Operations)	370	9	41	-	14	35	469	
Vice-President (Finance and Administration)	375	10	51	-	21	37	494	
Vice-President (University Relations) ⁽³⁾	313	22	40	-	14	23	412	
Vice-President (Advancement)	375	9	41	-	26	35	486	
2017								
	Base salary ⁽⁵⁾	Other cash benefits ⁽⁶⁾	Non-cash benefits ⁽⁷⁾	Non-cash benefits (DB SRP) ⁽⁸⁾	Non-cash benefits (DC SRP) ⁽⁹⁾	Non-cash benefits (leave) ⁽¹⁰⁾	Total	
Governance ⁽¹⁾								
Board of Governors	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Executive								
President	500	95	48	25	65	91	824	
Provost and Vice-President (Academic) ⁽¹¹⁾	415	-	41	-	37	-	493	
Vice-President (Research)	520	-	7	115	-	104	746	
Vice-President (Facilities and Operations) ⁽⁴⁾	425	5	43	64	13	41	591	
Vice-President (Finance and Administration) ⁽⁴⁾	442	5	44	85	16	46	638	
Vice-President (University Relations) ⁽³⁾	313	40	45	50	-	38	486	
Vice-President (Advancement)	375	9	42	-	24	33	483	

(1) The Chair and Members of the Board of Governors receive no remuneration for participation on the Board.

(2) In 2018, two individuals held this position. The interim Vice-President (Research) did not participate in any executive benefit programs except the DC SRP.

(3) In 2017, two individuals held this position. The interim Vice-President (University Relations) did not participate in any executive benefit programs until becoming Vice-President (University Relations) in July 2017.

(4) In 2017, two individuals held this position.

(5) Base salary includes pensionable base pay for all executive. In 2017, certain base salary amounts also include a retroactive salary settlement and a reduction for the optional personal leave program (days off without pay).

(6) Other cash benefits include academic executive allowances, performance pay, market supplements, car allowances, honoraria and relocation allowances.

(7) Non-cash benefits include the university's share of all employee benefits and contributions or payments made on behalf of employees including pension, group life insurance, employee and family assistance program, critical illness, supplementary health care, short and long-term disability plans, and dental plan. Benefits for some of the executive also include supplemental life insurance, forgivable housing loans, reimbursement for legal fees and club dues.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2018

(thousands of dollars)

21. Salaries and employee benefits (continued)

⁽⁸⁾ Under the terms of the Defined Benefit Supplementary Retirement Plan (DB SRP), the executive may receive supplemental payments. Retirement arrangement costs as detailed below are not cash payments in the period but are period expenses for the rights to future compensation. Costs shown reflect the total estimated cost to provide supplementary retirement benefits. The DB SRP provides future benefits to participants based on years of service and earnings. The cost of these benefits is actuarially determined using the projected benefit method pro rated on service, a market interest rate, and other assumptions included in the Canadian Institute of Actuaries' lump sum commuted value standard. Net actuarial gains and losses of the benefit obligations are amortized over the remaining terms of the participants' contracts. Current service cost is the actuarial present value of the benefits earned in the current year. The DB SRP was closed to new members effective June 30, 2014.

The DB SRP current service cost and accrued benefit obligation is as follows:

	2017		2018			
	Years of eligible University of Alberta service	Accrued benefit obligation	Service costs	Interest and other costs	Actuarial (gain) loss	Accrued benefit obligation ^(8c)
President ^(8a)	2.8	\$ 30	\$ 25	\$ 2	\$ 12	\$ 69
Former Vice-President (Research) ^(8b)	10.0	971	25	11	-	1,007

^(8a) The DB SRP was closed to new members effective June 30, 2014. However, a portion of the supplementary retirement benefit for the current President is calculated on a defined benefit basis, and the liability will be disclosed on this basis as service is provided.

^(8b) Includes service to June 30, 2017 and the accrued benefit obligation shown is at June 30, 2017.

^(8c) The significant actuarial assumptions used to measure the accrued benefit obligation are disclosed in (note 7).

⁽⁹⁾ Under the terms of the executive Defined Contribution Supplementary Retirement Plan (DC SRP), the executive may receive supplemental payments. Retirement arrangement costs as detailed below are not cash payments in the period but are period expenses for the rights to future compensation. Costs shown reflect the total cost to provide supplementary retirement benefits. The DC SRP provides future benefits to participants based on the value of the contributions at the end of their service. The cost of these benefits is calculated based on pensionable salary multiplied by a factor based on age and service. The DC SRP was introduced effective July 1, 2014, for all executives commencing employment on or after that date.

The DC SRP current service cost and obligation is as follows:

	2017		2018			
	Years of eligible University of Alberta service	DC SRP obligation	Service costs	Interest and investment earnings ^(9a)	DC SRP obligation	
President	2.8	\$ 86	\$ 43	\$ 4	\$ 133	
Provost and Vice-President (Academic)	2.8	55	25	3	83	
Interim Vice-President (Research)	0.8	-	12	-	12	
Vice-President (Facilities and Operations)	1.6	13	14	-	27	
Vice-President (Finance and Administration)	1.4	16	21	-	37	
Vice-President (University Relations)	0.8	-	14	-	14	
Vice-President (Advancement)	2.5	31	25	1	57	

^(9a) Contributions are made on an annual basis at the end of the plan (calendar) year. Interest is paid in lieu of contributions being made every month. Investment earnings are distributed to each plan participant based on the overall return of the plan's investments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2018

(thousands of dollars)

21. Salaries and employee benefits (continued)

⁽¹⁰⁾ The administrative/professional leave (leave) plan current service cost and accrued benefit obligation is as follows:

	Years of eligible University of Alberta service	2017		2018		
		Accrued benefit obligation	Service costs	Interest and other costs	Actuarial (gain) loss	Accrued benefit obligation ^(10b)
President	2.8	\$ 159	\$ 91	\$ 6	\$ 8	\$ 264
Former Vice-President (Research) ^(10a)	10.0	1,047	27	12	-	1,086
Vice-President (Facilities and Operations)	1.6	19	33	2	6	60
Vice-President (Finance and Administration)	1.4	15	35	2	4	56
Vice-President (University Relations)	0.8	-	22	1	3	26
Vice-President (Advancement)	2.5	50	33	2	9	94

^(10a) Includes service to June 30, 2017 and the accrued benefit obligation shown is at June 30, 2017.

^(10b) The significant actuarial assumptions used to measure the accrued benefit obligation are disclosed in (note 7).

⁽¹¹⁾ The Provost and Vice-President (Academic) participates in the administrative leave program available to faculty members in eligible administrative positions. Under that administrative leave program, an individual must apply for and receive approval for a leave; therefore, there is no leave accrual.

22. Approval of financial statements

The consolidated financial statements were approved by the Board of Governors.

23. Comparative figures

Certain comparative figures have been reclassified to confirm to the current year presentation.